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## ARGENTINE ECONOMY IN TROUBLE

ANNCR:

THE GOVERNMENT OF PRESIDENT MARIA ESTELA PERON HAS DRAWN UP AN EMERGENCY PLAN TO DEAL WITH THE COUNTRY'S WORSENING ECONOMIC PROBLEM. THE PLAN IS EXPECTED TO BE ANNOUNCED IN THE NEXT FEW DAYS. FOR A LOOK AT ARGENTINA'S ECONOMIC DIFFICULTIES, HERE IS A BACKGROUND REPORT FROM V-O-A'S AL ORTIZ.

VOICE:

AT THE BEGINNING OF THIS YEAR, ARGENTINA'S ECONOMISTS SAID THE SITUATION COULDN'T GET ANY WORSE. LAST YEAR'S INFLATION HIT A RECORD RATE OF THREE HUNDRED THIRTY PER CENT. THE FOREIGN DEBT CONTINUED TO INCREASE. WORKERS WERE DEMANDING HIGHER WAGES TO OFFSET THE RISING PRICES. BUT THINGS HAVE INDEED WORSENEDED.

GOVERNMENT FIGURES FOR THE FIRST TWO MONTHS OF THIS YEAR SHOW THAT INFLATION ROSE ABOUT THIRTY-EIGHT PER CENT, AND ECONOMISTS PREDICT IT COULD PASS THE SIX HUNDRED PER CENT MARK THIS YEAR. AS EXPECTED, THE RAMPANT INFLATION HAS FORCED LABOR UNIONS TO THINK IN TERMS OF LARGE WAGE INCREASES, BUT THESE ARE STILL BEING WORKED OUT. THE WORKERS' PURCHASING POWER HAS DROPPED SUBSTANTIALLY IN THE LAST FEW MONTHS.

IN THE PAST, ARGENTINES HAVE ALWAYS FELT THAT THE BASIC NEEDS OF FOOD AND TRANSPORTATION WOULD BE PLENTIFUL AND CHEAP; THEY STILL ARE FOR TOURISTS -- TWO MONTHS AGO, FOREIGN VISITORS RECEIVED ONE HUNDRED SIXTY ARGENTINE PESOS FOR EVERY DOLLAR; NOW THEY GET ABOUT TWO HUNDRED FIFTY PESOS PER DOLLAR. A STEAK DINNER WITH WINE COSTS ABOUT A DOLLAR AND A HALF. AND LEATHER GOODS ARE BARGAINS.

BUT FOR THE ARGENTINES, IT'S QUITE DIFFERENT. MOST CAN STILL AFFORD MEAT, THE STAPLE OF THE ARGENTINE DIET, BUT MANY FAMILIES ARE NO LONGER BUYING VEGETABLES, FRUIT AND BREAD BECAUSE OF THE FINANCIAL SQUEEZE. TRANSPORTATION COSTS, LED BY THE RISE IN GASOLINE PRICES, HAVE SHOT UP. MANY FAMILIES REALIZE THEY WILL NOT BE ABLE TO AFFORD A NEW REFRIGERATOR, TELEVISION, OR EVEN A USED CAR FOR YEARS TO COME.

THE ECONOMIC SITUATION IS A NIGHTMARE FOR ARGENTINE AND FOREIGN BANKERS AND BUSINESSMEN. BUSINESSES CAN NO LONGER EXPAND. THEY FACE RISING LABOR COSTS, AND A DROP IN CONSUMER DEMAND. BANKERS NOW OFFER DEPOSITORS INTEREST RATES OF UP TO NINETY PER CENT, BUT THAT PROVIDES LITTLE INCENTIVE TO SAVE, WITH INFLATION RISING AT SEVERAL TIMES THE INTEREST RATES, SO ARGENTINES ARE SPENDING THEIR PESOS QUICKLY BEFORE THEY BECOME EVEN LESS VALUABLE. SOME ARE DESPERATELY BUYING U.S. DOLLARS THAT WILL CONTINUE TO INCREASE IN VALUE.

IN AN EFFORT TO MEET RISING LABOR COSTS, THE GOVERNMENT HAS BEEN PRINTING HUGE AMOUNTS OF CURRENCY, AND THAT HAS BECOME A MAJOR CAUSE OF THE INFLATION. THE ARGENTINE GOVERNMENT HAS BEEN NEGOTIATING WITH FOREIGN BANKS AND WITH THE INTERNATIONAL MONETARY FUND FOR MORE THAN TWO HUNDRED MILLION DOLLARS IN FOREIGN CREDITS. IT COULD TAKE MONTHS TO ARRANGE THAT CREDIT. THE COUNTRY IS ON THE VERGE OF DEFAULTING ON NEARLY FIFTY MILLION DOLLARS IN CREDITS DRAWN FROM THE CHASE MANHATTAN BANK, AND THE FRENCH BANK CREDIT LYONNAISE. BUT FOREIGN BANKS SEEM TO BE GENERALLY SYMPATHETIC TO ARGENTINA'S SITUATION, AND AN AGREEMENT WILL PROBABLY BE WORKED OUT.

EVERYONE AGREES THAT ARGENTINA MUST DO SOMETHING IN THE NEAR FUTURE TO STABILIZE AT LEAST PART OF THE ECONOMY. A MAJOR DEVALUATION OF THE ARGENTINE PESO IS NEEDED FOR BUSINESS AND BANKING PURPOSES. SOME FORMS OF WAGE AND PRICE CONTROLS ARE EXPECTED, BUT THE GOVERNMENT WILL HAVE TO AUTHORIZE SOME PAY INCREASES TO WIN THE SUPPORT OF LABOR UNIONS. ECONOMISTS SAY THE GOVERNMENT NEEDS TO SHARPLY REDUCE THE SUPPLY OF CURRENCY. WHILE THAT WOULD PRODUCE HARDSHIP FOR MANY WORKERS, MAKING IT MORE DIFFICULT TO COME BY WAGE INCREASES, IT'S ABOUT THE ONLY WAY TO RESTORE PUBLIC CONFIDENCE IN THE PESO. AND THE GOVERNMENT WILL HAVE TO TAKE STRICT MEASURES TO FIGHT BLACK MARKET ACTIVITIES. MILLIONS OF DOLLARS OF GOODS ARE SMUGGLED OUT OF ARGENTINA EACH YEAR TO NEIGHBORING COUNTRIES AS SOME BUSINESSES TRY TO AVOID PAYING EXPORT TAXES.

AN ARGENTINE ECONOMIST SAID THE SURVIVAL OF CONSTITUTIONAL GOVERNMENT IN ARGENTINA MAY DEPEND ON THIS. "ARGENTINA HAS BEEN LIVING BEYOND ITS MEANS FOR SEVERAL YEARS.

NOW IT'S TIME TO PAY THE BILLS."

FFG/LP